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SUBJECT: TAJIKISTAN MUST COMPLY WITH INTERNATIONAL NORMS TO SUCCEED  
IN ENERGY TRADE

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¶1. (SBU) Summary. Tajikistan needs to take steps to sign and abide by international standard agreements if it wants to develop its electricity sector through exports to Afghanistan and beyond. In a series of meetings with top energy and economic officials May 28, Senior Advisor for Regional Economic Integration Robert Deutsch and Senior Advisor for Afghan Private Investment Ed Smith delivered a clear message to the Tajik government: Tajikistan cannot do business as usual, with bureaucratic hurdles and fuzzy legal agreements, if it wants to attract private investment or international financing.

¶2. (SBU) Deutsch reiterated U.S. support for Tajikistan's energy sector and interest in the development of Tajikistan's coal sector in order to provide year-round electricity for domestic use and export. He noted that U.S. Trade and Development Agency grant money already given to Tajikistan for a regional project could be transferred to study coal development, if the Tajik government presented a clear and sensible plan. At a May 29 meeting for investors and donors on coal (septel), the message had clearly sunk in, when Tajikistan's Energy Czar, Deputy Prime Minister Asadullo Ghulomov, repeatedly pledged Tajikistan would meet all international standards in the energy sector. End Summary.

¶3. (SBU) In meetings with Presidential Advisor for Economic Policy Matlubkhon Davlatov, Minister of Energy and Industry Sherali Gulov, Deputy Prime Minister Asadullo Ghulomov, and Minister of Transportation and Communications Abdurahim Ashurov, Deutsch briefed the Tajik officials on the May 22-23 Multi-Country Working Group meeting in Jeddah concerning regional energy trade. The Jeddah meeting set out key issues to ensure that the working group made progress towards trading 1000 megawatts of electricity from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan -- a project known as "Central Asia South Asia (CASA) 1000." One critical step will be demonstrating commitment to a higher standard of transparency and contracting by signing a solid power purchase agreement between Tajikistan and Afghanistan for their bilateral electricity trade to enable ABD financing for the interconnection. (Note: The Afghans have proposed a standard power purchase agreement, to which the Tajiks had responded that they preferred to continue previous month-to-month arrangements that were governed by memoranda of understanding and Tajik law. End Note.) Deutsch's message to the Tajik officials centered on

the following points:

-- A USTDA grant from June 2006, intended to study transmission networks to Afghanistan, could be used instead to study the feasibility of coal, provided the Tajiks had a comprehensive plan of action.

-- The United States could support Tajikistan's energy sector in several other ways: Overseas Private Investment Corporation (OPIC) would be available for insurance and financing if U.S. companies participated in the project. Export-Import Bank of the United States (EXIM) is closed to Tajikistan but could potentially support a third party purchaser, like Pakistan.

-- Although Tajikistan had successfully sold power to Afghanistan on a monthly basis under the framework of a simple memorandum of understanding, international financiers and investors require a more definitive agreement on supply and export prices that includes a mechanism for neutral dispute resolution. Tajikistan must be prepared to sign specific, binding agreements that go beyond Tajik law and adhere to international standards.

-- Providing electricity to Afghanistan is a U.S. policy priority, but the United States will not invest in mega-projects like the proposed 4000 megawatt hydropower station at Dhasti-Jhum. The Tajik government will need to take many smaller steps to establish a market and build investor confidence in such projects over the coming years.

14. (SBU) Presidential Advisor Matlubkhon Davlatov called energy a development priority and noted it was a regional, not just a national issue. In response to Deutsch and Smith's nine-hour journey on bad roads (at times, off-road) to a coal field in northern Tajikistan the day before, Davlatov observed that Tajikistan would still need to develop its road and rail infrastructure to use coal efficiently. He promised to follow

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through on a draft power purchase agreement that Afghanistan had sent to Tajikistan, and ensure that the Tajik side accepted the standard international terms for selling electricity.

15. (SBU) Deutsch also raised Canargo, a U.S. firm trying to sign an agreement with the Tajik government for gas exploration. When Davlatov suggested that the Tajik government would sign the production sharing agreement after Canargo had done its exploration, Deutsch reminded him that Western investors want the terms in advance of the risks and investment. Davlatov said that Tajikistan would adhere to international business norms, and when Tajik law did not match international standards, they would change their laws.

Minister of Energy and Industry  
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16. (SBU) Minister of Energy and Industry Gulov thanked Deutsch for his support for Tajikistan's coal sector and noted that a U.S.-funded feasibility study would go a long way to ensure a year-round supply of electricity for domestic use and export. Like Davlatov, he also asked for U.S. assistance in developing more generation capacity, particularly a hydropower station at Dhasti-Jhum. Gulov also pledged to clear up a "misunderstanding" on the draft power purchase agreement with Afghanistan, and ensure that it included international dispute resolution and a long term-commitment to supply power at established rates.

Deputy Prime Minister Ghulomov  
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17. (SBU) As Tajikistan's key official for energy and industrial policy, Ghulomov assured Deutsch that Tajikistan would meet all international standards to ensure the regional electricity project was successful. Because the electricity supply situation could change in 2008, when Sangtuda-I comes on

line, Ghulomov said he was reluctant to commit Tajikistan now to an agreement with Afghanistan, but understood that for international financing, they would fulfill the expected legal obligations. He observed that even if Tajikistan had the 1000 megawatts to export now, Afghanistan did not yet have a distribution network to take the power. "The Afghans have colossal work ahead of them."

¶18. (SBU) Moving beyond the CASA 1000 project, Ghulomov pitched key points in Tajikistan's energy dreams, including the need for a second high voltage line to Pakistan that would carry electricity produced at new generation projects, like Dhasti-Jhum. He noted that the May 29 coal conference would be an important step in developing year-round electricity and that Tajikistan needed more help in the coal sector.

Minister of Transportation and Communication  
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¶19. (SBU) Minister Ashurov repeated comments from the other three officials thanking the United States for the bridge at Nizhniy Pyanj. Calling it a significant step in linking Central and South Asia, he looked forward to the proposed August opening. He welcomed the opportunity for Tajikistan to participate in a fiber optic project to link the Central Asian republics directly to global fiber optic networks, and he promised that his telecommunications experts would provide full information on Tajikistan's infrastructure and plans for further discussion of regional fiber optic interconnections.

¶10. (SBU) COMMENT: Deutsch's visit was a timely reminder to Tajik officials that although the United States strongly supports Tajikistan's energy sector development, Soviet-style business practices will not help them build regional electricity networks or attract financing and investment. Whether his message sticks will only become clear if Tajikistan actually signs the mountain of paperwork necessary for a successful power purchase agreement. The pleas for U.S. development of power stations, specifically Dhasti-Jhum, were expected, and also demonstrate that our emphasis on attracting private investment through a more attractive business climate hasn't yet hit its target. The August bridge opening will be another opportunity to reinforce that message. END COMMENT.  
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